USDA Foreign Agricultural Service
GAIN Report
Global Agricultural Information Network

Required Report - public distribution

Date: 3/29/2010
GAIN Report Number: AS1010

Australia

Cotton and Products Annual

2010

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Report Highlights:
Post has forecast a significant increase in planted area, production and exports for the 2010/11 cotton crop as the industry recovers following long-running and severe drought conditions. Cotton returns will likely outperform returns for grain as grain prices have fallen significantly in 2009/10 and are not expected to compete with cotton.

Commodities:
Cotton

Summary

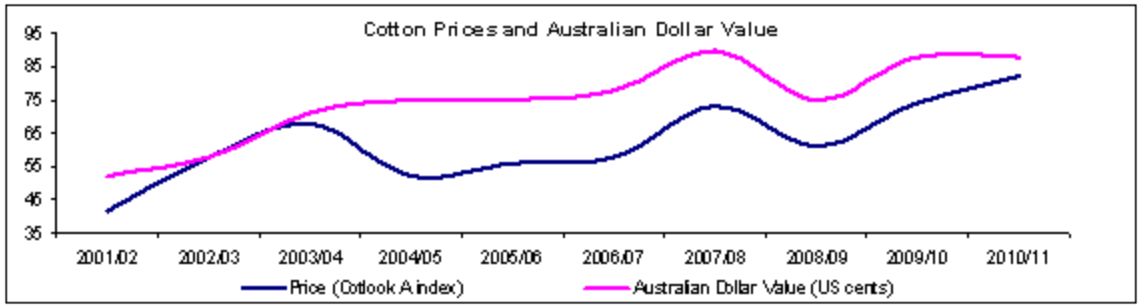
Post has forecast a significant increase in planted area, production and exports for the 2010/11 cotton crop as the industry recovers following long-running and severe drought conditions. However, post does not expect production to increase to levels experienced prior to the onset of drought in 2002/03 and instead expects a steady return to the long-term average after successive years of very low production.

Post advises that excellent rainfall has replenished key irrigation water reservoirs in the state of Queensland with some now full. However others, particularly key reservoirs in the state of New South Wales remain at historically low levels despite some improvement.

At the time of writing this report, the majority of key cotton producing areas in southern Australia have received excellent rainfall. Beginning on Christmas day, cyclonic style rainfall, which originated as part of northern Australia's wet season, pushed its way south to where the overwhelming majority of Australia's cropping land is located. This rainfall created localized flooding and, despite some flood damage, provided welcome relief to long running and severe drought which began in 2002/03.

Despite the widespread and soaking nature of recent rainfall, poor timing has diminished its short term effect on cotton production arriving too late to boost planted area for the 2009/10 cotton crop, and too early for 2010/11 cotton planting. As a result, a portion of the 2010/11 cotton crop has experienced reduced yield and some smaller portions have been lost altogether. Going forward, irrigation water supplies which were depleted during the course of the drought have begun to recover.

Prices for cotton are expected to remain relatively firm in 2010/11, although the high Australian dollar is also expected to somewhat constrain further increases. Industry sources believe that, going forward, cotton returns will likely outperform returns for grain as grain prices have fallen significantly in 2009/10 and are not expected compete with cotton.



Source: ABARE data (July-June)

Statistical Tables

PSD Table Cotton										
	2008			2009			2010			*UOM*
	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	USDA Official	Post Estimate	Post Estimate New	
Market Year Begin		08/2008	08/2008		08/2009	08/2009		08/2010	08/2010	*MM/YYYY*
Area Planted	0	0	0	0	0	0			0	(1000 HA)
Area Harvested	164	164	164	195	220	200			250	(1000 HA)
Beginning Stocks	600	555	600	929	880	929			964	1000 480 lb. Bales
Production	1,500	1,450	1,500	1,750	1,900	1,500			2,000	1000 480 lb. Bales
Imports	0	0	0	0	0	0			0	1000 480 lb. Bales
MY Imports from U.S.	0	0	0	0	0	0			0	1000 480 lb. Bales
Total Supply	2,100	2,005	2,100	2,679	2,780	2,429			2,964	1000 480 lb. Bales
Exports	1,201	1,150	1,201	1,700	1,550	1,500			1,800	1000 480 lb. Bales
Use	45	50	45	40	50	40			40	1000 480 lb. Bales
Loss	-75	-75	-75	-75	-75	-75			-75	1000 480 lb. Bales
Total Dom. Cons.	-30	-25	-30	-35	-25	-35			-35	1000 480 lb. Bales
Ending Stocks	929	880	929	1,014	1,255	964			1,199	1000 480 lb. Bales
Total Distribution	2,100	2,005	2,100	2,679	2,780	2,429			2,964	1000 480 lb. Bales
Stock to Use %	75	73	75	58	78	63			65	(PERCENT)
Yield	1,991.	1,925.	1,991.	1,954.	1,880.	1,633.			1,742.	(KG/HA)

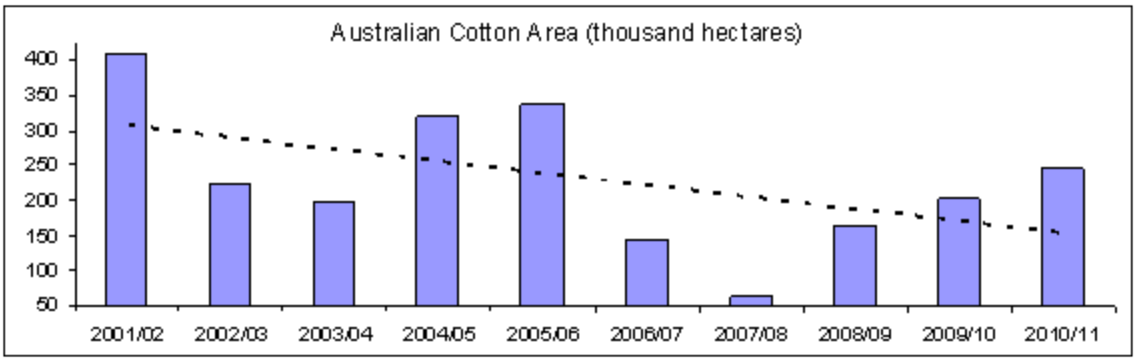
Planted Area

Total area planted to cotton in 2010/11 is forecast to increase to 250,000 hectares, the largest planted area since 2005/06. This represents a significant increase on the revised estimate for the previous year and is driven by the improved supplies of irrigation water, particularly in the state of Queensland. Despite this increase, post's forecast remains well under the ten-year-average of 386,000 hectares. Planting for the 2010/11 crop is not expected to commence until October.

The 2009/10 estimated area planted to cotton has been revised downwards to 200,000 hectares, ten percent lower than previously reported. Poor planting conditions and a lack of irrigation water resulted in planted area not reaching previous expectations. To a lesser extent, heavy rainfall and

flooding in some key cotton producing areas has damaged the crop and in the most extreme cases, resulted in abandonment. Industry sources suggest the total area lost to flooding will not likely surpass 2,000 hectares. However, much larger areas will likely provide below average yields due to flood damage and water logging.

Post advises that the estimate of 200,000 hectares for the 2009/10 crop is based on paddock (field) area. In other words, it represents the total area dedicated to growing cotton only. Industry sources suggest that "actual green area" is estimated at around 180,000 hectares. "Actual green area" makes allowance for cotton grown in "single skip" and "double skip" rows where individual cotton rows are not planted (or left blank) in an effort to conserve irrigation water.



Source: ABARE data (July-June)

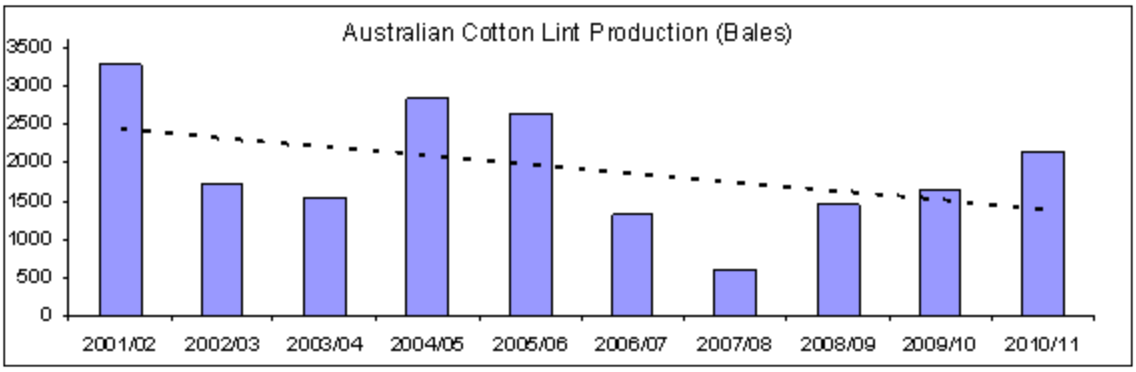
Production

Production for 2010/11 is forecast to increase sharply to 2.0 million bales, or around 435 TMT using a conversion factor of 4.593. A sharp increase in planted area due to improved production conditions, and an expected yield increase are likely to see production at its highest level since 2005/06. Despite this increase, post advises that the forecast remains well below the ten-year-average of 2.9 million bales.

Post has revised its production estimate for 2009/10 downwards to 1.5 million bales, mostly due to poor planting conditions not allowing planting intentions to be reached. Heavy rainfall and some local flooding have seen total harvested area reduced and yields decline somewhat. This figure remains largely in-line with industry estimates. Post believes that some higher industry production estimates have not adequately accounted for the impact of flood damage and yield loss.

At the time of writing this report, the 2009/10 Australian cotton harvest is believed to be around 10-20 percent completed. Heavy rainfall, and some flooding in February and March, has made harvesting conditions difficult and harvest is now running late. Cotton quality will likely be diminished in the worst affected areas. There is a real possibility that future additional rainfall could further delay harvest and increase the risk that less area could be harvested than currently forecast. Post's production estimate assumes normal rainfall and further losses, albeit minor.

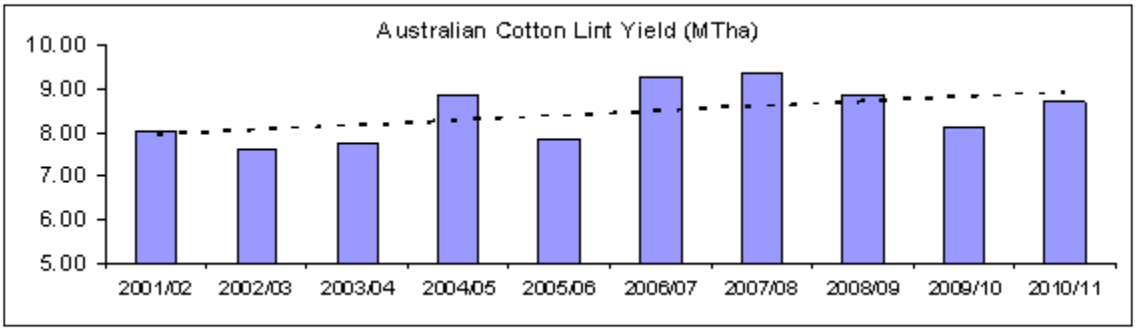
ABARE recently projected cotton production to increase steadily over the longer term, reaching 3.37 million bales by 2014/15. This increase is expected to be driven by increased planted area, which is projected to plateau at 345,000 hectares by 2012/13, while yield is expected to continue increasing production out to 2014/15.



Source: ABARE data (July-June)

Yield

Post has assumed a yield for the 2010/11 crop of around 8.0 bales per hectare, up on the 7.5 bales estimated for the previous year. This yield for 2010/11 would be considered somewhat conservative but takes account of an increased area sown to dry-land cotton which is expected to constrain overall yield somewhat.



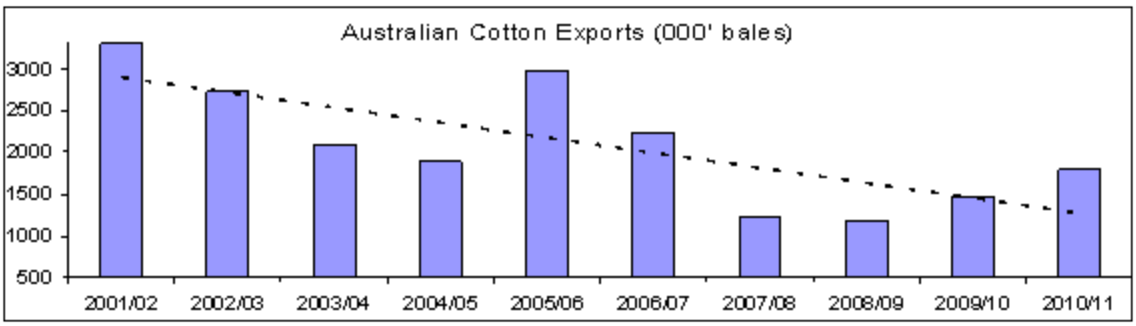
Source: ABARE data (July-June)

Industry sources suggest that dry land plantings for 2010/11 could be as high as 50,000 hectares, up on the estimated 21,000 hectares for the previous year. Comparatively better cotton prices combined with advances in dry-land cotton farming technology are likely to see the lower yielding dry-land varieties grow in proportion in 2010/11. Post also anticipates improved soil moisture conditions.

Exports

Total exports of cotton lint for 2010/11 are forecast at 1.8 million bales, up on the revised estimate of 1.5 million bales for the previous year. Increased production and relatively strong demand are expected to see cotton exports improve significantly in 2010/11.

Post has allowed for an increase in closing inventory for 2010/11 as, traditionally, the Australia cotton industry has carried over large stocks for processing in the following year. This tradition has abated somewhat with lower production during the severe drought of recent years.



Source: ABARE data (July-June)

Recent Reports from FAS/Canberra

The reports listed below can all be downloaded from the FAS website at: http://www.fas.usda.gov/scriptsw/AttacheRep/default.asp.

Report Number	Title of Report	Date
AS1009	Grain and Feed Annual	03/16/10
AS1007	Wine Annual 2010	03/01/10
AS1006	Livestock and Products Semi-annual 2010	03/01/10
AS1005	Government announces Ag Research Initiative to Increase Productivity & Cut Carbon Emissions by 50 percent	02/18/10
AS1004	Australian Container exports rise	02/02/10
AS1003	Grain & Feed Lock-Up – February 2010	02/01/10
AS1001	Commercial Cultivation of GM Canola Approved in 3rd Australian State	01/27/10
AS9042	Fresh Deciduous Fruit Annual 2009	12/24/09
AS9041	Australian Emissions Trading Scheme Excludes Agriculture	11/19/09
AS9039	Citrus Annual 2009	11/09/09
AS9038	Grain & Feed Lock-Up – November 2009	10/29/09

INDUSTRY ITEMS OF INTEREST

Areas of inland Australia flooded – heavy falls of rain which began on Christmas day and continuing up until the time of writing this report have created localized flooding in key cropping areas of south eastern Australia. NSW premier, Kristina Keneally, declared the western NSW town of Coonamble a "disaster area" with floodwater almost reaching a 40 year high level. Further to the west, parts of inland Australia have experienced more widespread flooding with many river gauges either showing record high river levels or their highest levels since the 1950's. The Queensland towns of St George and Dirranbandi have experienced floods exceeding the previous record set in 1890.

The Australian Bureau of Meteorology has issued flood warnings for Cooper, Strzelecki, Warburton and Diamantina Creeks in remote central Australia. While only rangeland livestock farming exists in these remote areas, floodwaters are expected to slowly make their way south and media reports are suggesting a strong start to the next irrigation season in the states of Victoria and South Australia. Irrigators in NSW and Queensland are also expecting a stronger start to next year's irrigation season.

Source: Australian Bureau of Meteorolgy/The Age/AFP.

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Detection of new exotic mealy bug variety – A new and previously undetected mealy bug (Phenacoccus solenopsis) was recently discovered in the Norvin area of the Darling downs in the state of Queensland. Cotton Australia, Australia's national cotton organization, has applied to Australia's national chemical and veterinary registration body for permission to use a new chemical for disinfestation which can be approved under "emergency use permit" conditions.

Source: Cotton Australia

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AU$300 million irrigation water efficiency program – The Federal Minister for Water, Penny Wong, recently announced the first AU$100 million federally funded projects to be conducted under the government's new "on farm irrigation water efficiency" program. This announcement reportedly covers 556 on farm projects and is the first stage of what is forecast to be an AU$300 million program.

Source: farmonline

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